

REBUTTAL TESTIMONY

OF

BILL L. VOSS

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

AMERITECH ILLINOIS

DOCKET NOS. 98-0252/0335 (CONSOL.)

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TABLE OF CONTENTS

Witness Identification.....	1
Description of Testimony.....	1
Revenue Requirement	2
Revenue Requirement Schedules	3
Adjustments Accepted by Ameritech Illinois	5
Uncollectible Expense for “Intrastate Known Changes”	6
Adjustments Contested by Ameritech Illinois	7
Interest Synchronization.....	8
Gross Receipts Taxes	10
Year 2000 Operating Revenues	13
Evaluation of Intervenor Adjustments	13
Conclusion	14

1 WITNESS IDENTIFICATION

2 **Q. Please state your name and business address.**

3 A. My name is Bill L. Voss. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5 **Q. Have you previously offered testimony in this proceeding?**

6 A. Yes. My Direct Testimony was filed on November 3, 2000.

7 DESCRIPTION OF TESTIMONY

8 **Q. What is the purpose of your Rebuttal Testimony in this proceeding?**

9 A. The purpose of my Rebuttal Testimony is to present the Staff revenue requirement,
10 to comment on the rebuttal testimony filed by Ameritech Illinois ("AI" or "Company")
11 and on the direct testimony filed by intervenors, and to present adjustments to the AI
12 rebuttal operating statement.

13 **Q. Are you sponsoring any schedules as part of Staff Exhibit 19.0?**

14 A. Yes. I have prepared the following schedules:

15	Schedule 19.01	Statement of Operating Income with Adjustments
16	Schedule 19.02	Adjustments to Operating Income
17	Schedule 19.03	Rate Base
18	Schedule 19.04	Adjustments to Rate Base
19	Schedule 19.05	Interest Synchronization
20	Schedule 19.06	Uncollectible Expense for "Intrastate Known Changes"
21	Schedule 19.07	Gross Receipts Taxes

22 **Q. Please describe the organization of your rebuttal testimony.**

23 A. My narrative testimony presents the rebuttal revenue requirement followed by a
24 discussion of my adjustments to the Company's operating statement. My schedules
25 follow the narrative testimony.

26 REVENUE REQUIREMENT

27 **Q. Please explain the development of your rebuttal revenue requirement.**

28 A. The rebuttal revenue requirement that I developed is based upon a historical test
29 year ending December 31, 1999. The rebuttal revenue requirement takes the
30 information provided by AI on Ameritech Illinois Ex. 7.1, Schedules 1 and 2, and

applies the Staff adjustments and the Staff overall rate of return to create the test year rebuttal revenue requirement for AI's intrastate operations.

Q. What is the amount of the Staff test year rebuttal revenue requirement for intrastate operating revenues?

A. The amount of the Staff test year intrastate operating revenues is \$2,278,121,000. This amount is a reduction of \$810,318,000 from AI's intrastate operating revenues for the 1999 test year. This information is presented on Staff Exhibit 19.0, Schedule 19.01.

REVENUE REQUIREMENT SCHEDULES

Q. Please describe Staff Exhibit 19.0, Schedule 19.01, "Statement of Operating Income with Adjustments."

A. Schedule 19.01 derives the required revenue at the Staff proposed overall rate of return. Column b presents the Company's proposed rebuttal operating statement at present rates for the test year as reflected on Ameritech Illinois Ex. 7.1, Schedule 1, in column M. Column c reflects the total of all Staff adjustments shown on Staff Exhibit 19.0, Schedule 19.02. Column d reflects the operating statement with Staff adjustments at present rates per Staff. Column e is the necessary change in the Staff's test year revenues to arrive at Staff's computed rebuttal revenue requirement

as reflected in column f. The difference between AI's test year revenues in column b and the required revenues as determined by Staff in column f is presented in column g, line 1. The percentage of the Staff proposed revenue change is calculated in column g at line 24. Net Operating Income in column f, line 21, is the product of the Staff Rate Base, line 22, and the Staff Overall Rate of Return, line 23.

Q. Please describe Staff Exhibit 19.0, Schedule 19.02, "Adjustments to Operating Income."

A. Schedule 19.02 is a two-page schedule that identifies Staff's adjustments to Operating Income. The source of each adjustment is shown in the heading of each column. Column k on page 2 is carried forward to Staff Exhibit 19.0, Schedule 19.01, column c.

Q. Please describe Staff Exhibit 19.0, Schedule 19.03, "Rate Base."

A. Schedule 19.03 compiles Staff's rate base. Column b reflects the Company's test year rate base from Ameritech Illinois Ex. 7.1, Schedule 2, column D. Column c summarizes Staff's adjustment to rate base. Column d is the net of columns b and c; column d presents Staff's computed rate base.

Q. Please describe Staff Exhibit 19.0, Schedule 19.04, "Adjustments to Rate Base."

67 A. Schedule 19.04 identifies Staff's adjustments to rate base. The source of each
68 adjustment is shown in the heading of each column. Column k is carried forward to
69 Staff Exhibit 19.0, Schedule 19.03, column c.

70 **Q. Have you included a rebuttal schedule showing the Staff calculation of the**
71 **gross revenue conversion factor?**

72 A. No. The Staff calculation of the gross revenue conversion factor ("GRCF") remains
73 unchanged from the calculation presented on Staff Exhibit 5.0, Schedule 5.05,
74 entitled "Gross Revenue Conversion Factor." Although AI addressed and accepted
75 my adjustment to uncollectible expense in the Rebuttal Testimony of Timothy
76 Dominak, AI did not address the Staff calculation of the GRCF, which included a
77 component based upon uncollectible expense.¹

78 ADJUSTMENTS ACCEPTED BY AMERITECH ILLINOIS

79 **Q. Were any of the adjustments presented in your Direct Testimony, Staff**
80 **Exhibit 5.0, accepted by Ameritech Illinois?**

81 A. Yes. As I noted above, AI witness Dominak accepted my adjustment to
82 uncollectible expense on pages 7 and 8 of his Rebuttal Testimony. This adjustment,

¹ Rebuttal Testimony of Timothy Dominak, Ameritech Illinois Ex. 7.1, pages 7 and 8.

83 which I proposed on Staff Exhibit 5.0, Schedule 5.07, entitled "Uncollectible
84 Expense," was included on Ameritech Illinois Ex. 7.1, Schedule 1, in column L. As I
85 previously mentioned, Mr. Dominak did not address the Staff calculation of the
86 GRCF, which included a component based upon uncollectible expense. Mr.
87 Dominak also did not address my adjustment to uncollectible expense for "Intrastate
88 Known Changes." I will present my revised adjustment to uncollectible expense for
89 "Intrastate Known Changes" in the next section of my Rebuttal Testimony.

90 UNCOLLECTIBLE EXPENSE FOR "INTRASTATE KNOWN CHANGES"

91 **Q. Why have you revised your adjustment to uncollectible expense for**
92 **"Intrastate Known Changes"?**

93 A. I have revised this adjustment because AI, in rebuttal, presented an additional
94 adjustment to test year revenues on Ameritech Illinois Ex. 7.1, Schedule 1, in column
95 F, for Additional 2000 Tariff Filings. This AI rebuttal adjustment calculated
96 uncollectible revenues using the Company's 2.28% uncollectible rate. This 2.28%
97 uncollectible rate was also used on the four revenue adjustments presented by AI on
98 Ameritech Illinois Exhibit 7.0, Schedule 1, at columns I through L. The appropriate
99 uncollectible rate for each of these five AI-proposed revenue adjustments is the
100 Staff-proposed uncollectible rate of 1.67% calculated on page 2 of Staff Exhibit 5.0,

Schedule 5.05.² Schedule 19.06, entitled “Uncollectible Expense for ‘Intrastate Known Changes,’” presents the Staff adjustment to the test year uncollectible expense attributable to the Company’s five revenue adjustments.

Q. In rebuttal, did Ameritech Illinois contest the adjustment, proposed in your Direct Testimony, to uncollectible expense for “Intrastate Known Changes”?

A. No. The adjustment, proposed in my Direct Testimony, to uncollectible expense for “Intrastate Known Changes”³ was not addressed in the Rebuttal Testimony of Timothy Dominak, Ameritech Illinois Ex. 7.1.

ADJUSTMENTS CONTESTED BY AMERITECH ILLINOIS

Q. Did Ameritech Illinois contest any of the adjustments that you proposed in Direct Testimony?

A. Yes. In rebuttal, AI witness Dominak contested three of the adjustments presented in my Direct Testimony, Staff Exhibit 5.0:

?? “Interest Synchronization” presented on Schedule 5.06,

² See Direct Testimony of Bill L. Voss, Staff Exhibit 5.0, page 11, lines 188 through 195.

³ Direct Testimony of Bill L. Voss, Staff Exhibit 5.0, page 12, lines 219 through 227, and Schedule 5.08.

116 ?? “Gross Receipts Taxes” presented on Schedule 5.10, and
117 ?? “Annualized Increased Revenues in the Year 2000 presented on Schedule
118 5.09.

119 INTEREST SYNCHRONIZATION

120 **Q. Did you review the Rebuttal Testimony of Timothy Dominak, Ameritech**
121 **Illinois Ex. 7.1, at pages 10 and 11, where Mr. Dominak addressed interest**
122 **synchronization?**

123 A. Yes. Mr. Dominak stated that the use of an interest synchronization adjustment “is
124 clearly inappropriate here where the Company’s actual earnings are being reported
125 for purposes of evaluating the alternative regulatory plan.”⁴

126 **Q. Why is the interest synchronization adjustment appropriate in this**
127 **proceeding?**

128 A. In my Direct Testimony, I explained the purpose for which I developed the revenue
129 requirement:

130 I calculated a revenue requirement in this proceeding to be used in
131 determining rates if the Commission decides to re-initialize the rates

⁴ Rebuttal Testimony of Timothy Dominak, Ameritech Illinois Ex. 7.1, page 11.

of Ameritech Illinois or if the Commission decides to return Ameritech Illinois to rate of return regulation.⁵

The revenue requirement in this proceeding is developed for the purpose of setting rates; thus, the interest synchronization adjustment is appropriate.

The interest expense that is included in AI's revenue requirement is equal to the rate base multiplied by the weighted cost of debt. The interest expense obligation of AI's ratepayers is based upon this formula; it is not based upon an amount actually paid by AI during the test year period. Since the ratepayers are responsible for the interest expense, the ratepayers are entitled to the tax benefits generated by that interest expense. As AI's rate base is adjusted, the interest expense and the associated tax benefit must also be adjusted.

Q. Please explain Staff Exhibit 19.0 , Schedule 19.05, "Interest Synchronization."

A. Schedule 19.05 computes the interest expense component of revenue requirement. The synchronized interest expense is computed by multiplying the rate base by weighted cost of debt. The synchronized interest expense is then compared to the interest expense used by the Company in its computation of test year income tax expense. The tax effect of the difference between the interest expenses is the

⁵ Direct Testimony of Bill L. Voss, Staff Exhibit 5.0, page 6, lines 98 through 100.

adjustment for interest synchronization. The adjustment for interest synchronization ensures that the revenue requirement reflects the tax savings generated by the interest expense component of revenue requirement.

GROSS RECEIPTS TAXES

Q. Did you review the Rebuttal Testimony of Timothy Dominak, at pages 29 and 30, where Mr. Dominak addressed your adjustment for gross receipts taxes?

A. Yes. Mr. Dominak opposed my adjustment to gross receipts taxes for three reasons:

?? “First, the revenues and expenses for gross receipts taxes virtually offset one another . . .”

?? “Second, Mr. Voss applies an uncollectible factor to these receipts . . .

?? “Finally, the collection fee is not recorded as an expense.”⁶

I will address each of Mr. Dominak’s reasons.

First, even though the revenues and expense attributable to gross receipts taxes “virtually offset one another,” both the revenues and expenses should be removed

166 from the calculation of the revenue requirement. If rates were to be set using a
167 revenue requirement that included the expenses attributable to gross receipts taxes,
168 tariffed rates would be designed to recover that expense. Then, when the
169 ratepayer's bill is prepared, the gross receipts tax and its expense would again be
170 added to the ratepayer's bill. The ratepayer would be double-billed for the gross
171 receipts taxes: once for the expense included in the calculation of the revenue
172 requirement and once for the gross receipts tax and its associated expense added
173 in the calculation of the ratepayer's bill. For this reason, both the revenues and the
174 expenses attributable to the gross receipts taxes must be removed from the
175 revenue requirement.

176 Second, based upon Mr. Dominak's rebuttal testimony that "[t]here is no
177 uncollectible amount associated with the gross receipts revenues,"⁷ I have not
178 applied an uncollectible factor to the revenue adjustment as it is included in column
179 d on page 1 of Schedule 19.02.

180 Third, Mr. Dominak is correct in stating that "the collection fee is not an expense." In
181 Direct Testimony, I attempted to provide the ratepayers with the \$602,000 benefit of
182 the 3% collection fee by reducing test year expenses. This attempt created
183 confusion. In rebuttal, I have not reduced test year expenses by the 3% collection

⁶ The source of each of these three quotations is the Rebuttal Testimony of Timothy Dominak, Ameritech Illinois Ex. 7.1, page 30.

fee. Instead, I have reduced both revenues and expenses by the \$33,960,000 expense amount for gross receipts taxes. The \$602,000 should remain in test year revenues with the provision that the \$602,000 not be included in the operating revenues required for the determination of rates.

Q. Please explain Staff Exhibit 19.0, Schedule 19.07, “Gross Receipts Taxes.”

A. Schedule 19.07 is a two-page schedule that presents the adjustment for gross receipts taxes. Page 1 presents the adjustments to operating revenues, other operating taxes, and collection fee revenue. Page 2 presents the calculation of the adjustment amounts. In column b, the total company revenues and expenses attributable to the gross receipts taxes are taken from the AI response to Staff Data Request SDR-059.⁸ The non-regulated factors in column c and the intrastate factors in column f are taken from the AI response to a verbal follow-up request pertaining to the AI response to Staff Data Request SDR-059.⁹ The intrastate amounts are calculated in column g. The amount of the 3% collection fee is calculated on line 14.

⁷ Rebuttal Testimony of Timothy Dominak, Ameritech Illinois Ex. 7.1, page 30.

⁸ See Direct Testimony of Bill L. Voss, Staff Exhibit 5.0, Attachment 5.07.

⁹ See Direct Testimony of Bill L. Voss, Staff Exhibit 5.0, Attachment 5.10.

199 YEAR 2000 OPERATING REVENUES

200 **Q. Did you review the Rebuttal Testimony of Timothy Dominak, at pages 24**
201 **through 29, where Mr. Dominak addressed your adjustment for year 2000**
202 **operating revenues?**

203 A. Yes. Mr. Dominak raised several persuasive arguments in opposition to my
204 adjustment increasing test year revenues based upon increased operating
205 revenues in the year 2000. Mr. Dominak's arguments were reinforced by the AI
206 responses to several Staff data requests. After evaluating Mr. Dominak's rebuttal
207 testimony and the AI responses, I am withdrawing the adjustment presented on Staff
208 Exhibit 5.0, Schedule 5.09, entitled "Annualized Increase in Revenues for the Year
209 2000."

210 EVALUATION OF INTERVENOR ADJUSTMENTS

211 **Q. Do you have any comments on adjustments proposed by intervenors in this**
212 **proceeding?**

213 A. Yes. I have comments on the adjustment proposed by GCI witness Ralph C. Smith
214 entitled "Revenue Reduction from Failure to Meet Service Quality Standards."¹⁰

215 The Staff has not proposed any similar revenue adjustment pertaining to service
216 quality. The Staff position on service quality is presented in the testimonies of Staff
217 witnesses Jackson and McClerren. I have not included GCI witness Smith's
218 proposed adjustment in the calculation of the Staff revenue requirement.

219 CONCLUSION

220 **Q. Does this conclude your Rebuttal Testimony?**

221 A. Yes, it does.

¹⁰ See Testimony of Ralph C. Smith, GCI Ex. 6.0, at pages 36 and 37, and GCI Exhibit 6.1, Schedule E-8.